



FOCUS ON THE FISC

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FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. This issue is focused on the FY 17 major budget actions and revenue measures enacted from the 2016 Legislative Sessions.

This marks the beginning of the regular publication of Focus on the Fisc and the next publication will highlight departmental and agency-level issues. We welcome your feedback to help the Fiscal Office more useful to you.



I would like to recognize two members of our staff, Monique Appeaning and Patrice Thomas who presented two of the five comparative data reports at the 70th Annual Southern Legislative Conference (SLC) recently held in Lexington, KY. Pictures from the presentations are of Monique presenting the [Corrections Report](#) and of Patrice presenting the [Medicaid Report](#).

John D. Carpenter



FOCUS POINTS

Revenue Overview, 2016 Sessions

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A number of bills affecting state revenue collections were enacted in the latest legislative sessions. As a whole, these bills are estimated to generate some \$1.634 B of additional revenue in FY 17 and \$1.750 B in FY 18. Portions of the additional revenue are budgeted through various statutory dedications, resulting in somewhat smaller amounts available for the state general fund. Table 1 and Table 2 on the next page list the major revenue generating bills in the three sessions held during 2016, especially the first and second extraordinary sessions (ES1 and ES2), with the annual revenue estimate associated with each major measure for FY 17 – FY 21. Most of the revenue anticipated flows to the state general fund with the exception of certain revenues dedicated to health care programs, but these dedications have the effect of freeing up a portion of what would otherwise be a general fund allocation to those health care programs. Of particular note is the significant drop-off in revenue in FY 19 and beyond, especially with regard to the sales tax increases enacted in ES1. Expirations of certain measures significantly reduce the expected revenue by over \$1 B in FY 19.

The largest of these measures are Acts 26 and 25 of ES1 that increased the state sales tax rate by 1% and applies various tax rates to previously exempt transactions. These two measures combined make up 70% of the total revenue increase for FY 17 and comprise virtually all of the revenue fall off in FY 19 and beyond. Both of these measures became effective for transactions made on April 1, 2016 and result in a fairly complex change in the state's sales tax rate and base structure through June 30, 2018 for most affected transactions, and through March 30, 2019 for business utility purchases. The website of the Department of Revenue provides a [twenty-five page table](#) detailing the rate of tax applicable for each previously exempt transaction over the periods encompassing April 1, 2016 through March 31, 2019.

Table 1

Summary of Major Revenue Bills 2016 ES1 Session (in millions)

	<u>FY 17</u>	<u>FY 18</u>	<u>FY 19</u>	<u>FY 20</u>	<u>FY 21</u>
Act 13 / HB 27 Beer and Alcoholic Beverage Tax Increases	\$19.2	\$19.3	\$19.5	\$19.6	\$19.8
Act 14 / HB 39 Auto Rental Excise Tax Reinstated	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0
Act 12 / HB 19 Corporate Franchise Tax Extended to Other Business Forms	\$10.3	\$89.3	\$94.0	\$94.0	\$94.0
Act 18 / HB 71 Limitations Imposed On Enterprise Zone Program	\$0.0	\$2.0	\$9.0	\$26.0	\$50.0
Act 26 / HB62 Increases Sales Rate By 1% and Extend To Exempt Transactions	\$880.6	\$880.6	\$0.0	\$0.0	\$0.0
Act 25 / HB 61 Subject Exempt Transactions to Sales Tax	\$272.3	\$272.3	\$45.0	\$0.0	\$0.0
Act 9 / HB 72 1% Sales Tax On Telecommunications Services Renewed	\$3.4	\$3.4	\$3.4	\$3.4	\$3.4
Act 4 / HB 14 Tobacco Tax On Cigarettes Increased	\$46.0	\$46.0	\$46.0	\$46.0	\$46.0
Act 10 / HB 87 Reduce Premium Tax Investment Credit By 5%	\$8.3	\$8.6	\$0.0	\$0.0	\$0.0
Various Miscellaneous Tax Changes	\$17.2	\$17.2	\$9.0	\$9.0	\$9.0
Total Additional Revenue Generated	\$1,262.3	\$1,343.7	\$230.9	\$203.0	\$227.2
Various Dedications Affected By Tax Changes	(\$3.2)	(\$3.2)	(\$2.3)	(\$2.3)	(\$2.3)
Net Additional General Fund Revenue	\$1,259.1	\$1,340.5	\$228.6	\$200.7	\$224.4

Table 2

Summary of Major Revenue Bills 2016 Regular and ES2 Sessions (in millions)

	<u>FY 17</u>	<u>FY 18</u>	<u>FY 19</u>	<u>FY 20</u>	<u>FY 21</u>
Act 4 / SB 6 Limit Inventory Tax Credit - All Firms	\$17.3	\$17.3	\$17.3	\$17.3	\$17.3
Act 5 / SB 10 Limit Inventory Tax Credit - Manufacturing Firms	\$57.0	\$57.0	\$57.0	\$57.0	\$57.0
Act 9 / HB 25 Reduce Citizens Assessment Tax Credit	\$17.0	\$21.2	\$33.8	\$33.8	\$33.8
Act 675 / HB 922 DHH Provider Fees	\$16.9	\$16.9	\$16.9	\$16.9	\$16.9
Act 305 / HB 662 DHH Provider Fees	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5
Act 1 / HB 35 Premium Tax Increase on HMOs - 3.25%	\$187.0	\$124.0	\$124.0	\$124.0	\$124.0
Act 7 / HB 24 Premium Tax Credit for HMOs	(\$1.3)	(\$1.3)	\$0.0	\$0.0	\$0.0
Medicaid Expansion - 2.25% Premium Tax	\$23.8	\$59.6	\$54.5	\$60.8	\$60.8
Medicaid Expansion - 3.25% Premium Tax Increase	\$34.5	\$86.1	\$78.8	\$87.8	\$87.8
Act 10 / HB 29 Reduce Interest on Overpayments of Tax	\$16.7	\$20.0	\$20.0	\$20.0	\$20.0
Total Additional Revenue Generated	\$371.4	\$403.3	\$404.8	\$420.1	\$420.1
Reduced Interest Costs Affects Certain Dedications	(\$0.4)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)
Dedications of Most of Premium Tax Increases To Health	(\$244.8)	(\$275.5)	(\$264.3)	(\$279.6)	(\$279.6)
Net Additional General Fund Revenue	\$126.2	\$127.3	\$140.0	\$140.0	\$140.0

The next largest revenue generating measure is Act 1 of ES2, which increases the tax imposed on premiums collected by health maintenance organizations. Roughly 90% of these revenues will come from the premium base associated with Medicaid patients receiving health care services through the state's Medicaid managed care program. These revenues will provide state match for federal support of the Medicaid program through the Medical Assistance Trust Fund dedication, thereby reducing the need for state general fund resources to support the program. The balance of these revenues is expected to come from HMO premiums associated with non-Medicaid patients, and will flow to the state general fund. In conjunction with the tax rate increase of Act 1, the state's participation in the federal Affordable Care Act will expand the Medicaid premium base and result in additional revenue to provide state match for the program. In addition, Acts 675 and 305 of the 2016 Regular Session authorize fee increases on health care providers that will provide additional revenue for support of the program. As a group, these measures are expected to provide some \$245 M in FY 17 to support the Medicaid program. In addition, HCR 51 of the 2016 Regular Session established a broad-based health care provider fee that is expected to generate \$22 M in FY 17 for support of the Medicaid program through the Hospital Stabilization Fund.

The state tax credit for local ad valorem taxes paid on inventory property was effectively reduced by two measures, Acts 4 and 5 of ES2. Act 4 modifies the portion of the credit available in excess of state tax liability by allowing certain amounts of excess credit to be refunded based on the total amount of local ad valorem tax paid on inventory property. Excess credit not allowed to be refunded is allowed to be carried forward for use against future tax liabilities for five years. Since, in the aggregate of all affected taxpayers,

liabilities are consistently and materially lower than available credit amounts, this effectively captures in state revenue receipts the amount of credit required to be carried forward. Act 5 modifies the portion of the credit available in excess of state tax liability for manufacturers claiming the ad valorem industrial tax exemption. For these firms, all of the credit available in excess of liability is not to be refunded but is allowed a five-year carry-forward. This also effectively captures in state revenue receipts the amount of credit required to be carried forward. These changes to the inventory credit follow significant changes made in the 2015 regular session that also limited the credit.

The corporate franchise tax was extended to business organizations other than traditional C-corporations by Act 12 of ES1, and is expected to generate material additional revenue, especially in FY 19 and beyond. Corporate tax receipts are also expected to be enhanced over the next few years by the provisions of Act 16 of ES1 that requires firms to add back certain formerly deductible expenses when computing net taxable income. Revenue gains are unknown and will be realized over time as compliance and enforcement step-up the tax base, but the effect can only work to expand the tax base and collections. In addition, Act 8 of ES2 changed the apportionment calculation for firms in industries other than oil & gas to a single sales factor, and provided for market-based sourcing of sales. Both of these changes are anticipated by advocates to enhance the state's corporate tax base. However, such changes will also redistribute the tax burden among corporations and no evidence of the likely effect on aggregate state tax base was available to support the expectation of greater overall revenue receipts. Net effects of these changes will be realized over time as compliance and enforcement occur.

The tobacco excise tax on cigarettes was raised by 22¢/pack by Act 4 of ES1. This change was effective April 1, 2016 and follows a tax rate increase of 50¢/pack made in the 2015 Regular session. The latest increase brings the total state tax on cigarettes to \$1.08/pack. The excise taxes on alcoholic beverages (liquor, wine, and beer) were modestly raised by Act 13 of ES1, as well. These were the first excise tax rate increases imposed on alcoholic beverages in several decades. Two other taxes were reinstated or renewed. A 3% tax on short-term auto rentals was reinstated by Act 14 of ES1, with 83% of the proceeds retained by the state (a 2.5% tax rate equivalent), and 17% distributed to the locale of rental (0.5% tax rate equivalent). This tax had been in effect for twenty-two years since 1991 until it was allowed to lapse in FY 13. In addition, Act 9 of ES1 renewed a 1% tax on interstate telecommunications services that was scheduled to expire on April 1, 2016.

The refundable income tax credit provided to reimburse policyholders for the assessment they are charged on their property insurance by the state-sponsored Citizens Insurance Company was reduced to 25% of the assessment paid by Act 9 of ES2. This reduction in the credit follows a reduction to 72% of the assessment paid that was imposed in 2015 Regular Session. That earlier credit reduction was to last only until June 30, 2018, with the credit returning to 100% after that. This latest change not only reduced the credit even more, but also made the latest reduction permanent.

Various other measures affecting net revenue receipts were also passed, including further limitations on the Enterprise Zone Program and its eventual phasing out as a stand-alone program beginning in FY 18 implemented by Act 18 of ES1. State revenue benefits occur over time as participating firms complete the program while new entrants taper off. Interest paid on overpayments of tax is effectively reduced by Act 10 of ES2 by establishing a 90-day period before interest begins to be due for various taxes. This allows the Revenue Department time to process complicated returns that generate refunds but without interest due during the processing period. Various bills of ES1 reduced tax remittance discounts, as well as two-year reduction in a major premium tax credit provided by Act 10 of that session.

Finally, Acts 31, 30, and 8 of ES1 are a package of bills that propose a constitutional amendment for the November 8, 2016 ballot, and enabling legislation, that eliminates the deductibility of federal income taxes paid from state corporate income tax in conjunction with replacing the current five-tier progressive tax rate structure with a single 6.5% tax rate on corporate net taxable income. Such a change to the tax structure will definitely result in a redistribution of the tax burden among corporations, and an analysis of a single tax year's returns by the Department of Revenue suggested relatively modest net aggregate revenue gains, as well.

GENERAL GOVERNMENT

Overview of FY 17 Legislative Budget Actions

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The Louisiana Legislature in 2016 convened in three separate sessions to address looming budget deficits through a series of revenue measures, budget maneuvers and structural changes. A historical reliance on one-time monies to balance the state's fiscal position (\$826.4 M in FY 16), projected FY 17 utilization increases in Medicaid (\$190 M) and growth of the public school student count (Minimum Foundation Program - \$20 M), rebasing FY 17 debt payments to account for a one-time debt defeasance prepayment, use of bond premiums and refunding which reduced the FY 16 payments due (\$190 M), delaying a FY 16 Medical Vendor Payment until FY 17 (\$262 M), and continued weakening of the underlying economy (\$743 M REC FY 17 SGF decrease between 11/16/15 and 2/10/16) left the Louisiana Legislature with sizable budgetary and fiscal issues to address during its Regular and two Special Sessions.

At the time the executive budget was presented to the legislature, Governor Edwards identified approximately \$2 B in revenues needed to fully fund identified needs and agency budget requests for FY 17. The legislature passed a series of instruments that resulted in an increase of the SGF appropriation by \$1.07 B above the Existing Operating Budget as of 12/1/15. Other instruments provided for increases in Statutory Dedication revenues, which in turn allowed the legislature to fund health related expenses and to free up SGF for use in other parts of the budget (i.e. HMO premium tax – Act 1 of the 2016 Second Extraordinary Session).

Table 3
State General Fund Status

	Existing Operating Budget as of 12/1/15 REC 11/16/15	Initial Appropriation FY 2017 REC 6/30/16	Initial Appropriation FY 2017 Compared to EOB (Difference)
<u>GENERAL FUND REVENUE</u>			
Revenue Estimating Conference	\$8,481,600,000	\$9,624,600,000	\$1,143,000,000
Total Available General Fund Revenue	\$8,481,600,000	\$9,624,600,000	\$1,143,000,000
<u>SGF APPROPRIATIONS AND REQUIREMENTS</u>			
Non-Appropriated Constitutional Requirements			
Debt Service ⁽¹⁾	\$193,397,230	\$404,806,802	\$211,409,572
Interim Emergency Board	\$1,758,021	\$1,720,862	(\$37,159)
Revenue Sharing	\$90,000,000	\$90,000,000	\$0
Total Non-Appropriated Constitutional Requirements	\$285,155,251	\$496,527,664	\$211,372,413
Appropriations			
General	\$8,041,802,994	\$8,909,423,862	\$867,620,868
Ancillary	\$0	\$0	\$0
Judicial	\$159,838,908	\$151,530,944	(\$8,307,964)
Legislative	\$73,352,811	\$66,017,530	(\$7,335,281)
Capital Outlay	\$0	\$0	\$0
Total Appropriations	\$8,274,994,713	\$9,126,972,336	\$851,977,623
Total Appropriations and Requirements	\$8,560,149,964	\$9,623,500,000	\$1,063,350,036
General Fund Revenue Less Appropriations and Requirements	(\$78,549,964)	\$1,100,000	

Table 3 on the previous page depicts the FY 17 SGF status as of the initial appropriation in comparison to the FY 16 Existing Operating Budget as of 12/1/15 (EOB freeze date). The source of the net SGF growth is a projected revenue increase of \$1.385 B associated with additional revenues from the 2016 legislative sessions. The difference between the \$1.385 B SGF revenue increase and the \$1.07 B appropriation increase is due to declines in the underlying revenue projections and mid-year budget reductions subsequent to the EOB freeze date.

Notes:

1) *Total projected Debt Service expenditures (non-appropriated Constitutional requirements) will be updated to \$401,452,087 upon publication of the next Fiscal Status Statement by the Division of Administration.*

While the SGF appropriation increased in FY 17, there are still significant activities and initiatives that are either not fully funded or that realized reductions in funding in comparison to FY 16. For example, two of the items that were heavily debated during the legislative sessions that were not fully funded include TOPS with an approximate \$88 M shortfall and the Minimum Foundation Program at approximately \$25 M. The Legislative Fiscal Office will publish its Fiscal Highlights document in September. This document and future editions of Focus on the Fisc will provide additional information and detail regarding department and agency level impacts of the FY 17 budget as adopted.

EDUCATION

Elementary and Secondary Education - Minimum Foundation Program (MFP)

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The FY 17 Appropriation includes an adjustment of \$14.8 M for an anticipated increase of 2,298 students and total funding of \$3,649 M; \$3,356.6 M SGF, \$181.1 M Lottery Proceeds Fund and \$111.2 M SELF Fund. Total student enrollment is projected at 692,280. It does not include funding for an inflation adjustment.

The FY 16 MFP included \$44.2 M, which was funded in a supplemental appropriation outside of the formula: a 1.375% inflation adjustment (\$36.2 M); an increase for the Supplemental Course Allocation (\$2.6 M); and an increase for the High Cost Services Allocation (\$5.4 M). HR 231 of 2015 urged and requested BESE to incorporate the supplemental funding into the FY 17 formula. As such, the proposed MFP for FY 17 approved by BESE on March 4th incorporated this adjustment into the formula. This represented standstill funding for the MFP. However, in light of the state fisc, the MFP resolution (SCR 44) was rejected by the Senate Education Committee and pursuant to the Constitution, the MFP is funded in accordance with the last approved resolution (SCR 55 of 2014); accordingly, HB 1 as enacted eliminates this supplemental MFP funding of \$44.2 M.

Act 14 (HB 69) of the 2nd Extraordinary Session appropriates supplemental funding for state agencies to the extent the Revenue Estimating Conference (REC) recognizes and incorporates into the official forecast any additional revenues generated as a result of enactment of certain instruments from that session. The bill includes an appropriation of \$20 M for the MFP, which is anticipated to be funded from these additional revenues. The Department of Education has indicated there is no one specific required use of this allocation and has advised districts that they have flexibility to dedicate funding among the four purposes cited in the appropriation (high cost special needs, Supplemental Course Allocation, teacher pay raises, or other operational or educational expenses). Districts are encouraged but not required to continue to budget for program expenses similar to those for the previous year.

The MFP provides for a base per pupil amount of \$3,961 and maintains the weights for students with special characteristics. Due to the reduction of the \$44.2 M supplemental funding, the Supplementary Allocations in Level 4 have been revised and are projected as follows: 1) Career Development Allocation (\$5.9 M) to support the development of technical courses required for statewide credentials in city and parish school systems and other public schools in the amount of 6% of the base per pupil cost for each qualifying student course enrollment; 2) High Cost Services Allocation (\$4 M) to provide additional funds to public school systems and schools which substantiate that the prior year cost of services for students with disabilities exceeds three times the most recent state average total expenditure per pupil amount; and 3) Supplemental Course Allocation (\$7.8 M) to provide for the cost of secondary course choices specifically approved by BESE in the amount of \$26 for each student enrolled in grades 7-12 as of February 1.

Higher Education Overview

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The Existing Operating Budget as of 12/1/2015 (without TOPS) totals \$2.37 B (including \$418.9 M SGF and \$350 M SAVE). FY 17 appropriates a total budget of \$2.38 B, reflecting a net increase of \$12.4 M; a \$29.6 M reduction in SGF, a \$17.7 M decrease in IAT and Statutory Dedications, a \$3.2 M decrease in Federal, and a \$62.9 M increase in SGR from fees associated with Act 377 of 2015 and tuition authority associated with the GRAD Act.

The first column in Table 4 shows the FY 16 SGF equivalent (SGF + Higher Education Initiatives Fund) budget by system and budget unit. The second column entitled "FY 17 Appropriated" shows the \$919.3 M SGF allocation to higher education including \$149.1 M for TOPS. Act 17 of

Higher Education State General Fund Equivalent (FY 16 Existing Budget to FY 17 Appropriated) based on Formula Funding by Regents (Table 4)			
Institution/System	FY 16 Existing Operating Budget (EOB)	FY 17 Appropriated	% Change FY 16 EOB to FY 17 Appropriated
LSU System Total	\$371,709,494	\$348,303,880	-6%
SU System Total	\$44,474,795	\$43,695,878	-2%
UL System Total	\$217,495,183	\$213,024,999	-2%
LCTCS System Total	\$115,508,742	\$115,721,328	0%
LOSFA Total	\$233,194,783	\$182,208,084	-22%
Board of Regents	\$15,213,434	\$14,046,612	-8%
LUMCON	2,283,493	\$2,279,428	0%
Statewide Total	\$999,879,924	\$919,280,209	-8%

the 2016 Regular Session and Act 14 of the 2016 2nd Extraordinary Legislative Session do not allocate specific amounts of SGF to individual institutions. Instead, the Acts assign SGF to the Board of Regents (BOR), LA Office of Student Financial Assistance (LOSFA), LA Universities Marine Consortium (LUMCON) and the management boards. The management boards allocated funding to institutions after passage of the appropriations bill.

Act 462 of 2014 required the BOR to develop an outcomes based funding formula for implementation beginning in FY 17. The formula allocates SGF for each institution/system based on a 70% pro-rata share (base funding), 15% cost calculation share and a 15% outcomes share. The pro-rata calculation is based on the 7/1/2015 appropriation levels and provides safeguards to prevent sudden, dramatic changes in the funding level of any postsecondary institution as required in Act 462. The cost calculation is based on weighted factors including SREB peer group salary data, course offerings, enrollment of Pell grant students, research, degree level, space utilization, and support services. The outcomes metrics are based on completer degree levels, transfers, completers in high demand fields (4 & 5 star jobs), time-to-award, and completion of students receiving the Pell grant.

Taylor Opportunity Program for Students (TOPS)

The FY 16 funding total for TOPS was \$265.2 M (\$200.1 M SGF and \$65.1 M Statutory Dedications). The FY 17 appropriated amount for TOPS is \$209.4 M (\$149.1 M SGF and \$60.3 Statutory Dedications). FY 17 current projected need for TOPS is \$297.1 M. As a result, TOPS is funded at approximately 70% of the total program cost.

Act 17 (HB 1) funded TOPS at \$141.5 M (\$81.2 M SGF + \$60.3 M Stat Ded), which was only 48% of the projected need. Act 14 (HB 69) of the 2016 2nd Extraordinary Legislative Session increased TOPS funding by \$67.9 M and contains language requiring that awards for the 2016 Fall semester be fully funded. However, this level of funding was insufficient to fund the Fall award amount at 100%, thereby increasing the funded percentage from 48% to only 93%. The remaining TOPS funds will be allocated on a pro-rata basis for the Spring semester.

Additionally, Act 503 of the 2016 Regular Legislative changes the mechanism for the distribution of awards in the event insufficient funds are available. The Act requires that all students that receive an award receive an equitably reduced award amount. Based on the average award amount of \$5,718, each semester award would be \$2,859. However, based on the language contained in Act 14, the Office of Student Financial Assistance (OSFA) estimates recipients would receive 93% of the award total (\$2,659 based on average award) for the Fall semester and recipients would receive 48% of the award amount (\$1,372 based on average award) for the Spring. It should be noted that the \$297.1 M program cost and average award amounts cited above do not include tuition increases which will become effective Fall 2016. This is the final year of GRAD Act tuition authority increases at five institutions ranging from 2.5% to 7%, as well as

certain programs at LSU Health Sciences Center New Orleans (10%). The impact of these increases on the total cost of the program will not be available until after the October student count. OSFA is expected to issue revised projections in November.

HEALTH & HOSPITALS

FY 17 Medicaid Overview

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FY 17 Appropriated (including supplemental funding from Act 14 of the 2016 Second Extraordinary Session) provides an additional \$473.6 M in SGF (\$2.6 B total increase in funding) for Medicaid in FY 17 from FY 16 Operating Budget at 12/1/15. Total Medicaid funding for FY 17 represents a 33% increase from the FY 16 (25% increase in State General Fund). The majority of the federal fund increase reflected in Table 5 is the result of projected federal matching funds for covering Medicaid expansion enrollees in FY 17. Total funding for Medicaid Medical Vendor Payments is \$10.7 B in FY 17.

The Medicaid budget contains certain significant increases/enhancements in FY 17, including funding projected growth in Bayou Health (Medicaid Managed Care), funding for an FY 16 Bayou Health payment obligation pushed into FY 17 (1 additional Bayou Health checkwrite added in FY 17), MCO payments for Medicaid

expansion for individuals to 138% of the FPL, annualized costs of certain home and community based waivers, increases in projected pharmacy costs and provider rate increases, and funding the backfill of revenues reduced in FY 16 as part of the FY 16 mid-year deficit elimination plan. Significant FY 17 SGF and Statutory Dedication increases are reflected below:

FY 17 Medical Vendor Payments (Table 5)				
	FY 16 EOB	FY 17 Appropriated	Difference	% change
SGF	\$1,873,639,008	\$2,347,201,044	\$473,562,036	25.27%
IAT	\$165,168,290	\$35,573,960	(\$129,594,330)	-78.46%
FSG	\$118,958,518	\$225,840,025	\$106,881,507	89.85%
Stat Ded	\$576,449,759	\$690,684,380	\$114,234,621	19.82%
Fed	\$5,312,498,471	\$7,404,282,437	\$2,091,783,966	39.37%
Total	\$8,046,714,046	\$10,703,581,846	\$2,656,867,800	33.02%

\$278.4 M - Medicaid managed care capitation rate payments (includes Act 14 funding)

\$167.0 M - Swap non-recurring one-time revenues for SGF

\$109.2 M - FY 16 pushed checkwrite (June 2016) into FY 17 *

\$24.3 M - Fee for Service increases (including Pharmacy, PACE, and LT-PCS)

\$21.3 M - Rate increases (FQHC's, RHC's, Hospice, Buy-in, Rural H's, Nursing F's)

\$10.8 M - Coordinated System of Care (CSoc) increase

*The \$109.2 M enhancement reflected above does not include \$17 M in SGF required state match to make a portion of the projected 13th managed care payment. This contingent amount of revenue will only be available for expenditure when the Department of Revenue prevails in any suit, appeal, or petition associated with an amount paid under protest and held in escrow in accordance with R.S. 47:1576. Such monies will be transferred to the SGF to be utilized to fund a portion of the 13th managed care payment. The total SGF need is \$126.2 M to draw down \$208.2 M in federal funding for \$334.4 M in total payments.

Public Private Partnerships (PPP) Funding

The total funding allocated to the Public Private Partnership (PPP) hospitals for FY 17 is \$1,140,348,311. Funding will be used to make both supplemental Medicaid payments (UPL) and Disproportionate Share Hospital (DSH) payments for uncompensated care costs (UCC). This allocation includes \$247 M of State General Fund (SGF), \$50.5 M of Statutory Dedications from the Medical Assistance Trust Fund, \$43.5 M of Fees and Self-generated Revenues, and \$799.5 M of Federal Funds. This allocation represents a \$96 M reduction (8%) compared to the FY 16 Existing Operating Budget (as of 12/01/16) as shown in Table 6 below.

In May 2016, information provided by the Louisiana Department of Health (LDH) indicated a FY 17 expenditure projection of \$1.3 B was anticipated for the PPP's in FY 17. However, this original projection is anticipated to change as the LDH applies a 25% (\$249,541,305) Disproportionate Share Hospital (DSH) reduction to the partnerships as a result of Medicaid Expansion.

Public Private Partnership Funding (Table 6)

	FY 16 EOB	FY 17 Budget	\$ Change	% Change
State Funds*	\$467,421,634	\$297,408,276	(\$170,013,358)	-36%
Fees and Self-Generated Revenue**	\$0	\$43,469,442	\$43,469,442	-
Federal Funds	\$769,013,864	\$799,470,593	\$30,456,729	4%
Total Means of Financing	\$1,236,435,498	\$1,140,348,311	(\$96,087,187)	-8%

Source: HB 1 and LDH projections.

*Includes \$50,511,446 from the Medical Assistance Trust Fund used as a state match allocated in Act 14 of the 2016 Second Extraordinary Legislative Session. The amount excludes \$3.8 M of SGF appropriated to Lallie Kemp hospital. Lallie Kemp remains a public hospital managed by LSU Health Care Services Division.

**Based on previous testimony, Houma has been refinanced and will no longer be financed with state general fund. Houma will be financed with \$43.5 M of SGR from local funds matched with an estimated \$77 M of federal funds.

Note: HB 1 does not directly appropriate funding to the individual PPP hospitals. Partner hospital reimbursements are paid from the Medicaid Private Providers and Uncompensated Care Costs programs. Therefore, the exact budget by hospital is not known. In addition, the majority of the partnership agreements provide for a

finance formula that requires payments to reimburse the hospital providers at 100% of allowable UCC costs. The LDH has not yet provided the projected preliminary individual hospital funding allocation based on the available revenues. The Commissioner's Office has indicated to the LFO that negotiations with the private partners to refinance the partnerships are still ongoing and no new agreements have been finalized. The FY 17 payment exposure will ultimately be based on the new partner financing agreements.

Based on information the LFO has received from LSU and the Commissioner's Office, the partners have not indicated any reduction or elimination of services provided by their hospitals as a result of the FY 17 level of funding.

Medicaid Expansion

The Medicaid budget and the Department of Corrections budget for FY 17 assumes a total of approximately \$160 M in net SGF savings associated with the implementation of Medicaid expansion for certain individuals up to 138% of the Federal Poverty Level (FPL). Projected SGF savings are largely based on a \$249 M total reduction in Disproportionate Share Hospital (DSH) payments to hospitals based on projected reductions in hospital provider uncompensated care costs. These savings are implemented in the FY 17 budget.

Medicaid Expansion projected SGF impact built into FY 17 budget:

SGF	Total (includes federal matching funds)	
\$39,733,074	\$1,728,196,336	- Managed Care payments for projected expansion population*
\$11,624,300	\$39,781,755	- Administrative funding for Medicaid expansion**
(\$94,129,451)	(\$249,541,305)	- Reduction in Disproportionate Share Hospital payments***
(\$89,331,263)	(\$236,827,314)	- Refinance of Disproportionate Share Hospital payments
(\$24,804,223)	(\$77,670,837)	- Savings for certain individuals enrolled in Medicaid****
(\$3,500,000)	(\$3,500,000)	- Refinance DOC certain inpatient hospitalization costs
(\$160,407,563)	\$1,200,438,635	- Total projected fiscal impact of Medicaid expansion

*MCO payments assume reimbursement to the health plans for covering the costs associated with the phase in of approximately 375,000 new expansion population eligible enrollees. Total payments represent payments for projected member months (cost of the eligible enrolled paid to the health plans (per member per month). **Note:** The projected MCO payments reflected above do not include any additional payments to the health plans to reimburse for the cost of the premium tax increase as a result of HB 35 of 2016 (HMO premium tax increase from 2.25% to 5.5%).

**The majority of funding for administrative functions associated with expansion are related to a staff augmentation contract with the University of New Orleans for positions to support the eligibility determination function, costs associated with the Fiscal Intermediary (Molina) for paying capitation rates to the health plans, and contract costs for an enrollment broker to link the members to the health plans.

***FY 17 DSH funding to the Public Private Partner hospitals assumes a reduction in hospital uncompensated care costs (UCC) for indigent care based on 375 K newly insured individuals in Medicaid.

****Certain individuals enrolled in Medicaid at a non-Medicaid expansion match rate are projected to qualify under expansion, therefore receiving a higher federal match. The higher match rate would require less SGF used as a match source than utilized in FY 16 for this population.

Note: Any changes from the initial Medicaid expansion assumptions could have a material fiscal impact to the Medicaid budget in FY 17.